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A

NATIONAL CURRENCY.

WHAT IS NEEDED.

SUGGESTIONS BY

A PRACTICAL BANKER.

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A NATIONAL CURRENCY.

THE prosecution of a serious war by any nation, disturbs, to a certain extent, the public credit, and changes the financial policy of the State as adapted to a time of peace. Such a result is not necessarily a national misfortune. It may show an existing defect, and point out the remedy. Such is undoubtedly the effect, in this respect, of our present contest.

With abundant wealth and private capital in excess of profitable employment, and popular confidence in the perpetuity of the State unbounded, the government cannot readily command the means to meet its daily requirements, without resort to measures of doubtful expediency. For this anomalous condition of things there is no explanation but a want of harmony in the management of the public and private finances of the country. There should be unity of effort as there is unity of interest, and the adoption of some plan is desirable by which the

surplus capital of the country shall be secured directly to the support of the government, and employment for this capital furnished in return.

The Secretary of the Treasury proposes to substitute for the diversified banking systems existing under authority of the several States, a uniform system of banks, established under authority of Congress, whose currency shall be based upon the national securities deposited with the Treasury, and thus be capable of use by the government with safety to itself and to the people. The adoption of such a system, desirable as it might be at any time, is, under existing circumstances, an absolute necessity —essential to the interests of the capital, vitally so to the success and safety, of the country.

The Secretary, in proposing this new banking system, has ably presented the objects to be secured thereby as follows:

First. The establishment of one sound, uniform circulation, of equal value throughout the country, upon the foundation of national credit combined with private capital.

Second. The support of the public credit.

Third. The establishment of convenient agencies for the collection and disbursement of the public revenue.

The first proposition necessarily implies the eventual withdrawal of the circulation of existing banks, and the substitution of the currency issued

under the direction of the Treasurer of the United States.

As one principal means of accomplishing the objects proposed, it is desirable to secure the re-organization, under the new system, of the existing banks, which would be attended with the following advantages, to wit:

The new system would thereby be generally and speedily adopted.

It would secure the confidence and support which the several banks now enjoy in their respective localities.

It would have the benefit of the capital and business experience now employed in the business of banking.

There would then be no inflation or contraction of the currency, for the new currency would be substituted for the old just as fast as the latter would be withdrawn.

The influence of the banks would be more deeply enlisted in favour of the government measures and the support of the government finances, not only by their own immediate absorption of the bonds required as a basis for the circulation issued by them, but by the sale of other bonds to the people through the agency of these banks.

Opposition to the government on the part of bank officers, stockholders, and customers, would be prevented—opposition which would naturally arise in

consequence of the organization of a system obviously tending to destroy the value of existing franchises.

It would stop the arguments of demagogues, that the government, after being sustained by the banks during its darkest hours, now, when able, crushes them in return. This argument might be, and probably would be, used with great effect, for it is undoubtedly true that the banks have not received due credit for the assistance and support given by them to the government. They not only came nobly to its assistance at the outbreak of the rebellion, but the entire subsequent increase of bank circulation noted by the Secretary of the Treasury as being unnecessary and unwise, has been invested in government securities; and much of the means invested in these securities through city bankers, is the direct proceeds of increased discount lines by the country banks, and which does not appear in any bank statement except under the head of loans, discounts, and balances.

It would avert all danger of conflict between the Federal and the State governments, arising from the resumption by Congress of its rightful authority to regulate the currency, which would be disputed by State authorities prompted by the desire to protect the investments of citizens, and to secure the support of the friends of existing institutions.

This, too, would prevent any evil results from a

withdrawal of the present banking capital and bank circulation under the influence of adverse legislation. Such withdrawal would be a real and serious evil, for much of the present active industry of the country, essential to the support of the government and of private interests, is so fostered by, and dependent upon, the capital furnished by banks, that a reduction, to any considerable extent, of that capital, would produce incalculable injury to all, and benefit to none.

It would make the speedy return to specie payments certain and easy.

These being the benefits to be derived, and the evils to be avoided, by securing the transfer of banking capital from the old system to the new, it only remains to inquire what is necessary to secure this end.

First. Some practicable provision must be made in the law authorizing the new system of banks, by which existing institutions may resign their charters, now enjoyed under State legislation, without subjecting them or their customers to any unnecessary inconvenience in consequence thereof. Ample protection must be made against any sacrifice of the rights, or release of the obligations, of either party, in consequence of the change so made by the banks. It is undoubtedly contemplated by the framers of the bill now before the two Houses of Congress, that existing banks may come under the provisions

of the new bill in the same way and upon the same terms as a new organization would do; but it must not be forgotten that the directors of a bank have no such control over the interests of stockholders as would authorize them to make a transfer of the capital of the bank invested under a charter granted by one power, to the use of another, or even the same association, under a charter with different privileges and liabilities granted by another power. Nor have the stockholders, even if unanimously consenting to the change, any warrant, either from Congress or any State legislature, for making the transfer. Any attempt to pervert their organization from the exercise of its originally conferred rights without the consent of the power conferring the same, or the authority of a higher power, would only work a forfeiture of all its privileges, and place the interests of the stockholders and creditors generally at the mercy of such of its debtors as might see fit to take advantage of the opportunities afforded for evading their liabilities to the bank. An able financier, standing at the head of one of the largest and most responsible banking systems of the country, has apprehended this difficulty so fully, and expressed it so pointedly, in a private letter addressed to the writer of this article, that the liberty is taken to present his views in this connection. Speaking of the winding up of the existing local

banks of the country, in order to organize the new system, he says:

"I am aware that it is claimed that this is not necessary—that existing institutions can organize under the new system without such process. But how can this be done? It is not *corporations* that are authorized to associate, &c., but '*persons*, not less in any case than five.' How can persons connected with existing institutions withdraw their investments but by a return of their capital? How can this be done but by the payment of all liabilities, and the collection and conversion of all the assets of the bank? It is true, a stockholder in an existing institution may sell his stock and invest his funds under the new system; but that is not the question. It is, how can an existing institution organize under the new plan? I think, only by going into liquidation, returning its capital to the shareholders, and leaving each one to decide for himself. This process may be compulsory, as is proposed, but it will certainly be slow, and productive of great evil on the one hand, and no good on the other."

The way being made practicable by proper legislation, what are the considerations necessary to induce the banks to make the proposed change? For assuredly the banks must transfer their capital voluntarily, if at all, since there can be no compulsion in the matter. Congress may, by the

exercise of its rightful authority to regulate the currency, impose such restrictions upon the issue of notes of circulation, as to compel their withdrawal by the banks; but it can exercise no more control over the capital of the banks, which is the private property of the stockholders, than over any other species of private property. But to induce the voluntary transfer of the capital as desired, nothing more will be necessary than the guarantee of such privileges as will insure, with sound management, a safe and fairly remunerative employment for the capital and labour now employed in banking. To induce the employment of capital and labour in the business, there must be not only an assurance of safety to the bill holder, but also some prospect of profit to the banker, which latter consideration seems to have been almost entirely overlooked in the preparation of the bills now before Congress. And it will require less assurance of profit to induce associations now engaged in banking to reorganize under the proposed system, than it would to secure the organization of new associations under the same system, or under much more favourable systems created by State legislation, for the following reasons, to wit:

The indisposition of capital to change employment.

The influence of bank officers, prompted by their anxiety to retain their positions and salaries, would

be thrown in favour of continuing in business, and against winding up the institutions in their charge, which they would be compelled to do under the influence of the contemplated adverse legislation.

The desire to retain the benefits of the business secured through years of labour and attention.

The increased safety of business resulting from the employment of an amount equal to more than the entire circulation in loans to the government without risk, instead of in loans to individuals, involving more or less risk.

The disposition to forestall the organization of other rival associations under the new system.

The hope of patronage to be derived from government deposits, should the recommendations of the Secretary of the Treasury, and the provisions of the pending bill, meet the approval of Congress, and be enacted into a law.

And, above all, the advantages afforded for maintaining a circulation, favoured by government endorsement, and employed in conducting the financial operations of the government—being by the terms of the proposed law made a legal tender in payment of all dues to or from the government, except the payment to the government of duties on imports, and the payment by the government of the interest on loans. This advantage would be more readily appreciated by existing banks, who know by experience the localizing influence of State prejudices upon

bank note circulation, than by those who have had no experience in banking.

Admitting the right of Congress, which few deny, and assuming its purpose, which is avowed by many of its present members, to exercise the right to regulate the currency, even to the extent of driving into liquidation the banks deriving their privileges only from State authority, it will still be necessary, in order to secure the creation of a national currency, and to secure the other objects proposed by the Secretary, to induce the establishment of banks by granting such privileges as will so far overbalance the restrictions, at the same time imposed, as to make it more advantageous on the whole to employ capital in banking under the national law, than, as individuals or private companies, or as corporate companies under charters granted by State legislatures, authorizing banking with, or without circulation, with which latter Congress could not interfere.

What privileges would be requisite to secure this end, and to what extent the privileges would be improved, depend greatly upon circumstances affected by location and the ability to employ capital. In the East, where capital is abundant, and the advance in the value of real estate is slow, the profit which money must earn in order to induce investments is less than in the West, where capital is less abundant, and the advance in the value of property more rapid. Capital will not seek investment *at risk*,

except with the expectation of greater profit than can be obtained on investments with ample security.

Bank charters restrict the rights enjoyed as individuals by owners of capital. They confer the control upon directors whose judgment may be inferior to that of the stockholder. They impose penalties for acts which the individual would have a perfect right to do, thus frequently preventing transactions which might be to the mutual benefit of the customer and capitalist. They require expenditures upon accounts necessary enough to the sound management of a corporation, but unnecessary for the management of a like capital in private hands.

To compensate for these restrictions, bank charters are expected to allow certain advantages, such as the limitation of the personal liability of the stockholder, the use of the credit of the corporation by receiving deposits, and the creation of a currency to be used as capital in its business, to an extent profitable to the stockholder, yet consistent with the safety of the public.

But as the right to receive deposits belongs to every individual, and is not subject to restriction by the power of Congress, and as experience proves that private bankers command larger deposits in proportion to the capital employed than corporate companies, no account of this source of profit should be taken in a calculation designed to show the extent of the privileges required to induce the investment of

capital in corporate banking under the authority of Congress. But, if it were true that deposits would be secured more readily, and to a greater extent, by corporate companies than by individual or private bankers, it must still be remembered that all of the States provide for the organization of banking companies which may enjoy, without any action of Congress, equal or greater facilities than under the proposed national law, with the exception of the right to issue circulation; so that the inducement offered to capital to engage in banking under any law which Congress may provide, will be measured mainly by the privileges granted by that law to make and issue circulation.

But, as it is desirable to secure, both for the interest of the public and the government, the organization of banks in localities where deposits cannot be relied on as a source of profit in banking under any system, the question as to what extent the privilege of issuing a circulation should be afforded, is freed from all connection with other considerations than the mutual interests of the banks and the public.

Now what is the value to a bank of the right to issue circulation, and to what extent may it be allowed with safety to the public interest?

The first is easily ascertained by a simple calculation, showing the amount of interest received from the use of circulation, and the expense arising from its issue and redemption.

For illustration, suppose that six per cent. bonds are worth par, an assumption unfair to the banks under ordinary circumstances; that the cost of redeeming its issues by the bank, the loss of interest for the time any portion may be unemployed, and the other incidental expenses connected with the use thereof, is equal to one per cent. per annum; and that a tax of two per cent. per annum is levied upon the circulation, and that the bank is required to keep unemployed funds to the amount of twenty-five per cent. of its notes outstanding, we can readily reach a conclusion as to the value of the circulation by the following simple calculation:

Profit and Loss.	Dr.	Cr.
By 6 per cent. on say 10,000 circulation,		$600
To 2 per cent. tax on 10,000 circulation,	$200	
To 1 per cent. cost of redeeming 10,000 circulation,	100	
To 6 per cent. int. on $2500, it being 25 per cent. of the amount of circulation required to be kept unemployed,	150	
		450
Leaving an apparent profit of		$150

which is one and a half per cent. upon the circulation, from which is to be deducted, however, the expenses of the examination of the bank by the comptroller, and other expenses incident to the employment of notes of issue.

This is the highest rate of profit that can be

claimed for circulation under any of the bills which have been presented to Congress, with the avowed approval of the Secretary of the Treasury. Indeed, the showing is *more* favourable to the banks than the House Bill, presented by Mr. Hooper, will warrant; which, without any show of sound reason therefor, proposes to tax the *securities* of the National Banks, instead of the *circulation*, by which means, if the provision be enacted, the tax would be increased over eleven per cent., even if the circulation were kept constantly employed to the full extent authorized by the deposit of securities.

But if the showing should be rendered still more favourable to the banks by the reduction of the tax one-half, which seems in no way probable, from the disposition manifested by the authors of the several bills presented to Congress thus far, and should the cost of redeeming circulation be reduced to one-half per cent. per annum, which is less than the cost of maintaining redemption under the most favourable circumstances, the gross profit would thereby be increased to three per cent. upon the amount of circulation used, a rate quite as high and higher than is ordinarily realized by banks under existing systems.

Hon. H. H. Van Dyck, Superintendent of the Bank Department of the State of New York, says in his report for the present year: "Three per cent. interest will be nearly equivalent to the interest at the present market value on New York stocks deposited

for banking purposes by associations and individuals," from which is to be deducted the cost of redemption.

The rate of dividends ordinarily declared by banks of issue, and the willingness of most banks to make loans at a rate equivalent to this profit on undoubted security, and sufficient guarantee of protection for the circulation, afford ample proof that the estimate is not too low.

But the calculation made is too favourable for ordinary times, when the five per cent. bonds of the government are at or above par, as is the case with many of the State five per cents. at the present time; in consequence of which the profits on circulation would be reduced one per cent. from that derived according to the above calculation; beside which no account has been made of the many incidental and unforseen expenses known only to the practical banker, arising from the use and protection of a circulation. Nor can any definite allowance be made for incidental profits, such as arise from deposits, charges for exchange, and collections, as in case of loans and renewals of loans to individual borrowers, which are realized by bankers when loans are constantly changing, but the investment, equal to the circulation, is a permanent one, from which no incidental advantages whatever can be derived—not even the temporary return of capital by payment of loans, and the redisbursements of circulation by means of new discounts, by which the banker is so

materially aided in making redemption of his circulation, and reissuing the same.

This addition of from one and a half to three per cent. per annum to the profits of a bank, from the use of a circulation equal only to its capital stock, it is evident offers no fair equivalent return for the restriction imposed upon the use of capital, as it could be, and is ordinarily employed by private individuals, or by banking companies organized under charters conferred by State authority, with or without the right to issue circulation. Without the right to use circulation to a greater extent, requiring equal security for the increase of issues, or of some equally valuable privilege in lieu thereof, the attempt to establish a national currency to the extent required by the necessities of the government and the interests of the people, will be A FAILURE.

No banks will be established in the localities where circulation may be most safely issued, and where the interest of the bank would prompt its creation. They will be confined strictly to the cities and large towns, where the combination of government with ordinary deposits will secure their profits independent of the use of a circulation, so that the furnishing of a circulation will depend upon the caprice and not the necessities of the banks. No such banks will be organized in the country towns of ordinary size and wealth.

As was said before, in determining the value of

circulation to a bank, we have nothing to do with the question of how much profit may be expected from *deposits*, but when we come to discuss the advantage or probability of the organization of a bank in a given locality, it is proper to consider all the facts bearing on the case, and to calculate the profits to be derived not from some particular resource alone, whether it be capital, deposits, or circulation, but from the use of all these resources combined. It would seldom happen in any locality, that the profit arising from any one resource would induce or justify the employment of capital in banking; yet if the use of all the ordinary resources, capital, deposits, and circulation combined, would prove profitable, it is probable that in such localities banking institutions would be organized.

Having demonstrated the value to a bank of circulation, independent of capital or deposits, it would be as easy to demonstrate, by a like calculation, the value of either of the latter; but this is irrelevant to our purpose. It is entirely pertinent to our subject, however, to prove that no sufficient inducement is furnished for the organization of banks, under the proposed national law, in the common towns of the country where their organization should be encouraged.

In few country towns do the bank deposits, not on interest, equal the capital of the bank. This the published statements of the banks establish; and in the instances where they exceed the capital, allow-

ance must be made for the amount of deposits attracted by the payment of interest thereon, and the increase due to the liberal discounts by the banks whose currency is unsecured, leaving capital and circulation both free to be employed in discounts to individuals, by which an increase of deposits is secured.

But assuming that deposits would be uniformly equal to capital, what would be the profit of banking under the proposed national law, with a capital of $50,000? The statement of a bank in good credit and favourably located would present about the following:

Bonds,	$55,000	Capital stock,	$50,000
Coin,	15,000	Circulation,	50,000
Exchange,	20,000	Deposits,	50,000
Currency,	10,000		
Discounts,	50,000		
	$150,000		$150,000

Expenses.		*Profits.*	
Cashier,	$1,000	6 per cent. on $55,000 bonds,	$3,300
Teller,	500	6 per cent. on $50,000 bills discounted,	3,000
Rent,	300		
Tax on circulation,	1,000		
Brokers' license under the revenue law,	50		
Stationery and books,	200		
Fuel, lights, &c.	75		
Office expenses and incidentals,	175		
½ per cent. loss on discounts,	250		
	$3,550		$6,300

leaving just five and one-half per cent. to be annually divided to the stockholders, subject to a tax of

three per cent. under the revenue laws. The calculation makes no account of expenses for redemption of circulation—offsetting that item of expenses against the incidental profits of exchanges at the counter.

This showing of profits and expenses is more favourable to the banks than common experience would warrant; and, with the expectation of such results, is it to be presumed that capital will be invested in banking in the ordinary country towns?

We repeat that the organization of banks under the national law as now proposed, will be strictly confined to the cities and larger towns, where, by means of deposits, *they can expand their liabilities* WITHOUT RESTRICTION—an expansion no less dangerous to the public than would be an expansion of notes of circulation to the same extent.

In the enjoyment of this unrestricted privilege, the banks would have little need and less disposition to encumber themselves with the care of a circulation, unless tempted thereto by the absence of a circulation furnished by country banks, in which event, doubtless, they would consent to increase their profits, even to the limited extent of two or three per cent., for the sake of furnishing a circulation for the convenience of the rural districts. Indeed, the leading bills which have been presented to Congress thus far, seem to be conformed solely to the views and requirements of the city banks, and to ignore the fact that it is to the country, more than the cities,

that government must look mainly for its support—whether it be men for its armies, or money for its coffers, that is required. This perhaps is due to the circumstance that the largest aggregations of capital are found in the city, and that the managers of its financial institutions are more readily and more naturally consulted. But, as the reservoirs of the city would soon become dry but for the streams which replenish them, and its granaries exhausted but for the stores which supply them, so would its coffers become empty but for the exuberant wealth of the country which is poured into them.

The cities have credit for generous assistance rendered the government by advances on its bonds, which is well deserved by them, since they did it at their own risk; but how far their ability would have enabled them to go in their patriotic endeavours, but for the absorption of these bonds by investments from the country, or by the increase of balances by the country banks, it would be curious and doubtless instructive to know.

In another place it will be shown to what extent the capital and circulation of some of the country banks have been applied to the support of the government finances by investments in its securities.

These suggestions are made with no invidious feeling against the city banks, or in favour of the country banks, but with the purpose to show that it is to the interest of the government to make some

provision in its law for a system of national banks, such that the *whole country* may share its benefits, and contribute to the support of the government credit. It has been urged against the establishment of banks of issue in the country, that this was the occasion of our suffering to such an extent from an irredeemable currency, in consequence of the remoteness of the places of redemption from the centres of trade; that it was the excessive issues of the country banks, and their inability to redeem them in times of general distrust, that occasioned all our monetary panics, and that the only practicable remedy is to limit the privilege of issuing notes to institutions located at the commercial centres, so that the redemption of the notes would be easily secured.

Facts prove the fallacy of this argument. The panic of 1857 was precipitated upon the country, not by the failure of any country banks to redeem their issues, or indeed by the failure of any bank to do so, but by the failure of one of the mammoth, overtrusted moneyed institutions of the city to pay its depositors; and that, in that great overwhelming panic which forced the banks of the wealthiest cities into suspension, the banks of the central States—Ohio, Indiana, and Kentucky—the *country* banks, whose aggregate issues were large, and which were cut off from their usual sources of supply of coin by the suspension of their city correspondents, bravely

maintained specie redemption through all that terrible period of panic, distrust, and ruin.

These remote country banks were enabled to maintain so proud a position at such a time, for the reason that the actual resources of the country were equal to the demands upon it, and that there was a *home* demand for money sufficient for the absorption of the entire circulation of those States, and a general confidence in this home currency, which made the citizens of those States prefer it to the issues of the most respectable of the city banks.

It is clear that unless Congress shall make provision for the establishment of banks of issue under the national law, with such privileges as will justify the investment of capital therein, or positively prohibit the issue of notes of banks not organized under its authority, the existing local banks will be retained as a necessity for the accommodation of the business of the country; and as long as these banks continue in existence, there will not only be a rivalry, but a strife between the banks and the government for the supremacy of the two banking systems; and the local banks will be the stronger party. Having the people with them whom they accommodate, they will monopolize the field of circulation, returning every dollar of government money for redemption, whether it be issued by government banks or by the Treasury Department direct.

It matters not how heavy a tax may be imposed

upon circulation, so long as there is no express prohibition, it will be paid directly by the banks, and indirectly by the people. While it is allowed to add to the value of every other taxable thing the tax imposed, and collect it of the consumer, it is presumed that taxes may be laid upon banking capital and circulation, and the burden be confined to the owner thereof by means of the unvarying rate of interest prescribed for the use of money. Never was greater mistake made by legislator. As well attempt to impose a heavy tax upon any of *the other necessaries of life*, and hope to confine the burden to the producer. No. Every mill of taxation imposed upon any article that is required for daily use, is but a *double* tax upon the poor, who become the last consumers of the commodities it directly or indirectly supplies. Money is no exception to the rule. Money is just as much a necessity for daily use as food or clothes, and will be had at whatever price it may cost. Every dollar added to the value of capital by the curtailment of the supply, is added to the commodities it moves, until the consumer is affected just as sensibly as if you increased the price of corn or cotton by diminishing the supply. Taxes on money, or on bank circulation, which serves the purposes of money in transacting the business of the country, increase the cost of articles consumed, just as surely and directly as if levied upon the articles themselves. The capitalist adds the tax, with a

commission, to his charges to the trader; the trader adds the increased price of capital to the cost of his goods, and the consumer pays the whole. It is no use to plead, in reply to this, that the rate of interest is so fixed that it may not be increased without incurring the penalty of usury. So much the worse! The risk incurred but bars the door to many a worthy, trusty borrower, and *forces* the capitalist to higher and more heartless exactions to cover the increased risk.

If it be folly to attempt to advance the interests of the government by levying excessive taxation upon bank-notes, with a view to their restriction, instead of encouraging their issue under government direction, and making them subservient to the support of government credit, it would be the height of madness to attempt to drive them from the field by prohibition. That would complete the work of ruin. The banks, in self-protection, would of course withdraw their issues, and of necessity force their customers relentlessly to speedy payment to accomplish it. Ruin staring the business men of the country in the face, capital would treble in value upon the mere announcement of the purpose; stocks of all kinds would be sold without regard to sacrifices; the money market would assume a stringency never known before; the government securities would be unsaleable at any price. The people, outraged at the infliction of such unnecessary evils,

would rebel against the government; general bankruptcy would ensue; in the final contest, patriotism would be overborne in the general struggle for self-preservation; and in the possession of the property of the country, the people would prove the stronger power. But it is not, we trust, to be feared that such madness will prevail.

The banks have too strong claims upon the consideration of the government to make any such act less than base ingratitude. Notwithstanding the complaints made of the interference with the financial operations of the government by the banks, through the expansion of their circulation, it is more than probable that the government has been the gainer rather than the loser in consequence.

The inflation in prices has been erroneously attributed directly to the expansion of circulation. Even if this charge were true, it is probably equally as true, that the government has been more than compensated for any injury sustained from this cause by the continued ease of the money market during a period of vastly stimulated industry, and an increased demand for capital on every hand. Besides this, the direct investments made in the public securities by the banks, and the confidence thereby imparted to the public, by which millions of private capital has been likewise invested; and the facilities furnished individuals for carrying investments in bonds beyond their unaided capacity, has given a tone to the

market for government securities, and prevented a perfect prostration of the public credit.

During the year 1861, the banks all over the country steadily contracted their circulation, and that to such an extent that the diminution of capital resulting therefrom produced a stringency in the money market so great, that at the close of the year United States twenty years six per cent. bonds sold at but a fraction over eighty-five cents on the dollar —a reduction of fully thirty-three per cent. from the market value of the same securities in times of prosperity.

This contraction extended far beyond what was necessary for the safety of the banks, had they been obliged to provide only for the protection of their own liabilities. It does not require a very large reduction of the circulation at any time to relieve an apparently dangerous redundancy, for as soon as a moderate amount is withdrawn the legitimate demand for currency to supply the uses of trade gives employment to the balance, and prevents its return to the banks; and should the withdrawal of circulation from any cause extend beyond this point—the result is a stringency in the money market, and a difficulty in procuring capital for legitimate purposes. The banks were forced beyond this point by a cause which the sagacity of the wisest financiers foresaw and foretold, but could not remove, for it was above and beyond their control.

The government had turned banker, but was unprovided with sufficiently reliable resources for the redemption of the liabilities it sought to create, without being dependent, to a great extent, upon the indulgence and assistance of the very institutions with whose interests its policy would most seriously conflict.

It is not designed to reflect ungenerously or harshly upon the policy of the Secretary of the Treasury, who had a most difficult and perplexing duty to perform—but certainly he ought to have foreseen the result—for it was plainly pointed out to him by able financiers upon whose sagacity and integrity he could have implicitly relied.

The government could not issue, to any great extent, notes of circulation and maintain the redemption thereof in specie, without forcing the withdrawal of the entire bank circulation—abstracting every dollar of coin from their vaults, driving them into liquidation, and the country into bankruptcy. Had the amount required for the uses of the government been very limited, it might have sustained itself by a forced loan from the people, in the shape of a legal tender currency; but at the expense of the banks of the country, which would have been compelled to carry the load, if able, or go into liquidation, if unable. But with unmeasured and almost unlimited necessities in prospect, the government was compelled to resort to the sale of bonds to sup-

ply sums required beyond the capacity of any practicable volume of circulation to furnish. And here the effects of the conflict between the policy of the government and the interests of the banks was felt. The government could not borrow money unless the banks were able to lend, and the banks were unable to lend, while the government notes were forcing home every dollar of their circulation.

Had Congress then adopted the policy so wisely suggested by the Secretary of the Treasury, and authorized the establishment of banks whose issues should be secured by a pledge of public stocks, and which the government might use in its transactions, the difficulty would have been relieved, if the system had been made sufficiently liberal to ensure its adoption by the banks. This, Congress unhappily failed to do, and the only alternative was for the bankers and government to suspend specie payments together, and by making government notes a legal tender, force them into circulation, thereby furnishing the government with the means of prosecuting the war to a successful issue, when, by the sale of bonds, the government currency could be redeemed, the banks resume specie payments, and the business of the country be restored to its normal condition.

The suspension of specie payments of course relieved the banks from further drains, and very naturally produced a relief in the money market, which not only allowed the extension of facilities

to business men for the accommodations of trade, but tempted to the purchase, for speculative purposes, of the bonds of the government, then ruling at such reduced rates. No sooner had the fingers of speculators touched these bonds than they became invested with new attractions, of course occasioning a rapid rise, which in its progress attracted capital from every direction, each investment adding to the impulse to invest, until not only private capital was being absorbed in the purchase, but an expansion, rapid and general, of bank circulation took place, to furnish the means for banks and bank customers to invest in the now popular securities, the rise on which was making fortunes every day. In four or five months from the time of the suspension of the New York banks, government twenty year sixes had risen to a high premium, the advance upon the lowest market rates of December 1861, being fully twenty-five per cent.

This remarkable rally in prices so far stimulated public confidence in the national securities, that but for the reverses of June last, and the purely speculative rise in gold, which, to a certain extent, disturbed that confidence, the entire capital of the country was at the command of the government, at most favourable rates of interest.

Notwithstanding the ebbs and flows of popular feeling and confidence, the banks of the country have stood firmly by the national securities, absorb-

ing them to the full extent of their means, increased as they have been by their rapid expansion of circulation. This is in part indicated by such of the bank statements as exhibit the specific character of the securities held, which, however, is neglected by many of the banks, so that it is impossible to learn, except by special information, the entire amount of government bonds held by *all* the banks. Enough is shown, however, by the full reports of *two* States alone, to prove beyond dispute the correctness of the assertion.

The following statement, compiled from the annual report of the banks of Pennsylvania, made to the Auditor General in November, 1862, shows that the banks of that State, which have increased their circulation over fourteen millions of dollars since their suspension, have invested in the several securities of the government, over twenty-two millions of dollars. Thus:

Held by country banks.		
United States loans,	$6,286,100	
" Legal Tender notes,	1,912,050	
		$8,198,150
Held by Philadelphia banks.		
U. S. 7 3/10 Treasury notes,	1,622,750	
" 6's, 1881,	1,758,500	
" 5-20 Coupons,	110,000	
" 1 Year Certificates,	2,803,650	
" Demand Loans,	510,000	
" Temporary Loans,	504,800	
" Legal Tender notes,	6,833,460	
		14,143,160
	Total,	$22,341,310

Since the date of this official report, many of the banks have in reply to inquiries reported an increase of investment in the same class of securities.

Liberal as is the support thus shown to be given the government by the banks of Pennsylvania, it is far surpassed by that of the banks of New York. In 1861 the banks of the *City* of New York alone took within three months $105,000,000, at a time when the circulation of the entire State was but little over thirty millions of dollars! To such an extent has the willingness to invest in government securities been exhibited by the country banks, that the Superintendent of the Bank Department of that State is led, in his late report, to cite an instance in which a country bank with a capital of $150,000, and a circulation of $160,000, has invested in government securities $330,000, absorbing all its capital, circulation, and $20,000 of its deposits!

The following statement furnished by the Superintendent of the Bank Department of New York, is thus referred to by him in an accompanying letter:

"On another page you will find a statement of the amount of government indebtedness to the banks of this State, received in answer to a recent circular of my own, and may be relied on as authentic. The statement is given in full:

"BANK DEPARTMENT, ALBANY, *January* 31, 1863.

Amount of United States Securities owned by the Banks of the State of New York, January 19, 1863.

By Banks, Banking Associations, and Individual Bankers.

United States Stocks,	$31,631,780	
Treasury Notes (7 3/10)	25,383,505	
Indebtedness Certificates,	14,941,679	
Certificates bearing Interest,	37,047,370	
Do. payable in Gold,	6,774,612	
Demand and Legal Tender Notes,	20,189,098	
		135,968,044

By Savings Banks.

United States Stocks,	$10,392,102	
Treasury Notes (7 3/10)	3,460,162*	
Indebtedness Certificates,	2,543,666	
Certificates bearing Interest,	1,143,200	
Demand and Legal Tender Notes,	130,000	
		17,669,130
		$153,637,174
*Add for two savings banks not received in time,		349,400
	Total ,	$153,986,574

The above does not include United States Securities held as collaterals to loans.

H. H. VAN DYCK, *Superintendent.*"

Thus it will be seen that the banks of New York and Pennsylvania alone, have not only taken from the government, but hold *on their own account*, evidences of the government indebtedness, amounting in the aggregate to ONE HUNDRED AND SEVENTY-SIX MILLIONS OF DOLLARS, which is an excess of TEN MILLIONS over *the entire bank circulation of the whole country!* To this should be added the securities held

by individuals, through the assistance of the banks, to show the full measure of support given by them to the finances of the government. The statement of the facts as exhibited above, leaves no room for argument to prove the extent to which the gratitude of the government is due the banks for their confidence and support; and it shows the fallacy of all schemes which would build up the government finances by pulling down the banks.

Force the withdrawal of the bank circulation, by means of which this immense amount of government debt is carried, and in consequence, force the withdrawal of the capital dependent upon the use of this circulation for its profit, what would be the effect upon the price of the government bonds? Or, to make a less radical opposition to the banks, compel only a reduction of their circulation by the imposition of an overburdensome tax upon their notes, and the effect would be to force these bonds upon the market to enable the banks to protect their private customers to the greatest extent possible with their more limited means. This, occurring at a time when government needs a market for additional issues of its bonds, by creating a competition with the government in the sale of its own securities, and exciting popular distrust, would lead to dire disaster, involving the government, the banks, and the people, in financial ruin.

This catastrophe may be avoided, the government

credit may be maintained, and its coffers replenished with capital from the ample resources of the prosperous people, by securing a return of the public confidence in the steady and ultimate value of its securities. This may be accomplished in one way, and one way only, namely, by securing the coöperation of the existing banks of the country, if practicable; or, failing that, by the organization of a general system of new banks, upon the plan proposed by the Secretary of the Treasury, as intended to be secured by the bills now before Congress.

But it must be a practicable plan, which adapts itself to the necessities of the time, to the wants of the government and the interests of the people. It must be based upon no particular set of notions, and be fashioned to suit no man's whims. It must not be conformed to the *peculiar* views of any theoretical or practical financier. It must not be adapted exclusively to the organization of banks suited to the East or the West, to the city or the country. It must be so constructed that, without danger of abuse, a bank adapted to the requirements of a commercial city, or the village of a farming district, may be organized under it. If you would have the influence of the banks created under it universal, imparting confidence to the people, and supporting the government by collecting and funding the capital of the country, wherever it may be found, you must make the institutions as nearly as possible every-

where accessible. Not that it would be politic to invite the whole capital of the country into the business of banking, but that the capital now invested in the business should be arrayed in favour of, instead of against the government; and that wherever it will pay to have a village broker's office, have instead a village bank, itself interested in the support of the government, and by its influence interesting the whole community in the same cause. With such agencies engaged in the support of the public credit and the sale of the national securities, everywhere operating together with a common interest and a common purpose, it would be practicable to meet the heaviest daily expenses of the government by the daily sale of its bonds. Then the value and credit of the public stocks would no longer depend upon the fickle and varying quotation of a single market, nor the ability to realize upon them, be governed by the capacity of the stock gamblers to carry their loans at bank, or their interest in maintaining quotations; but their value be measured by the support which the credit, interest, and patriotism of the whole country would prompt, and the ability to sell be limited only by the capacity of the country to absorb. These bonds, too, would not be bought by reckless speculators, whose whole extent of capital is equal only to the margin required to negotiate their temporary loans; and who, from necessity or choice, become sellers at

every turn of the market, keeping the same bonds continually before the public, and competing with the government in the sale of its own securities. They would be sold to the people, to the farmer and the mechanic, to the merchant and the professional man, to the executors of estates and guardians of orphans, as an investment at will, for the accumulation of their capital, whether great or small. The government would become the savings bank of the whole country; and its bonds certificates of deposits, payable on demand with interest, by reason of their ready negotiability.

With such a system of financial support, we could defy the world in arms. It would command for the use of government the last dollar of the country's capital. The net proceeds of the farm and the workshop would be loaned to the government, but to be repaid to the lenders for the products of their industry; and the perplexing problem, of how to sustain the government and carry on the war, would be reduced to the simple question of the ability of those who stay at home and work to support those who go to fight. With this system once thoroughly introduced, and the surplus capital of the country once invested in, and the money of the country based upon, the public stocks, the attempt to produce disunion and secession, would be as foolish and as impracticable as the attempt to blot out the noonday sun.

To adapt either of the bills now before Congress to the accomplishment of these objects, but few modifications are essentially necessary, none of which would impair the efficiency of the law, or render it liable to abuse. These modifications are

First: Allow the establishment of banks with capitals not less than twenty-five thousand dollars.

Second: Allow the banks to issue notes of circulation, in different ratios to their capital, according to the amount of capital paid in.

Third: Allow the banks to charge seven per cent. interest upon loans, provided the same may be done by authority of Congress, or without conflicting with the legislation of the several States.

The provision first proposed is necessary to secure the organization of banks at points where the business would justify the employment of the capital suggested, but not a larger amount.

The second provision is designed to extend privileges necessary to secure the establishment of banks at all desirable points, but to prevent the abuses of the system which would arise from the exercise of the same privileges upon a larger basis.

The third provision is designed to discriminate in favour of banks to be organized under authority of Congress, as against those existing under State legislation. As the bills now stand, taxing equally the circulation of the National and the State banks, the inducement to organize under the national law

is not an equivalent for the superior privileges granted the banks under the State charters. It is but a fair compensation, also, for the obligation imposed, to invest their means to an amount ten per cent. greater than their circulation, in bonds which, in ordinary times, will not yield more than five per cent. per annum upon the amount invested. Either the tax upon the circulation of the National banks should be reduced one per cent. per annum, or the rate of interest allowed to be charged on loans should be increased to that extent. Seven per cent. is not too high a rate of interest for the use of money, as is recognised by the legislation of many States, and the universal custom of the country. The adoption of this provision would make the rate uniform in all the States; otherwise a discrimination would exist in favour of the banks organized in the State of New York, where seven per cent. is the legal rate, and thus tend to centralize instead of diffuse the capital of the country.

The limitation of circulation to capital to be prescribed according to the second provision, should be determined by the probable profits on capital arising from the entire business of the bank, including the use of the circulation. As the expenses of conducting a bank of small capital usually bear a greater proportion to the profits than those of a bank of larger capital, it is obvious that the privileges of the smaller banks should be enhanced in like propor-

tion, in order to produce an equal return upon investments made in institutions of different capitals, and to secure the organization of banks whereever desirable for the sake of the community and the accomplishment of the objects proposed in the adoption of the system.

The average results of banking throughout the entire country will probably justify the granting of the privilege to issue circulation in proportion to capital, as follows:

Banks having a paid up capital not exceeding fifty thousand dollars, three dollars of circulation to one of capital.

Banks having a paid up capital of more than fifty thousand, and not more than one hundred thousand dollars, two dollars of circulation to one of capital.

Banks having a paid up capital of more than one hundred thousand, and not more than three hundred thousand dollars, one and a half dollars of circulation to one of capital.

Banks with a capital of over three hundred thousand dollars, one dollar of circulation to one of capital.

It may be feared that so much liberality in the law will tempt too much capital into the business of banking, and lead to an inflation of the currency.

An exhibit of the profits to be expected from banking, with the privileges proposed, will serve to correct this apprehension.

While it is true that many individual banks, favourably situated, use to the fullest possible extent the privileges to which they are entitled, it is also true, that no banks do so as a class.

The exhibit of the banks organized under any system, however liberal, will show that, taken together, their liabilities do not nearly equal the proportion to capital authorized by their charters. But, upon the assumption that a bank would employ all the circulation to which it might be entitled, no reliable expectation of exorbitant profit under the proposed law could be entertained.

A bank, with a capital of $25,000 would make about the following exhibit, if employing the entire amount of circulation authorized:

Assets.		*Liabilities.*	
Bonds,	$83,350	Capital,	$25,000
Coin,	20,000	Circulation,	75,000
Exchange,	10,000	Deposits,	25,000
Currency,	5,000		
Discounts,	6,650		
	$125,000		$125,000

Expenses.		*Earnings.*	
Cashier,	$800	6 per cent. on $83,350 bonds,	$5,000
Teller,	300	" 6,650 discounts,	219
Rent,	200		$5,220
Taxes on cir.,	1,500		3,150
Stationery,	100		2,070
Other expenses,	200	Dividend, 8 per cent.,	2000
Broker's license,	50		70
	3,150		

A bank with $100,000 would exhibit as follows:

Assets.		*Liabilities.*	
Bonds,	$222,250	Capital,	$100,000
Coin,	50,000	Circulation,	200,000
Exchange,	25,000	Deposits,	100,000
Currency,	20,000		
Discounts,	82,750		
	$400,000		$400,000

Expenses.		*Earnings.*	
Salaries,	$2,500	6 per cent. on 222,250 Bonds,	$13,335
Rent,	350	6 per cent on 82,750 Discounts,	4,965
Taxes on Circul'n,	4,000		18,300
Stationery,	400		9,205
License,	50		
Office Expenses,	500		
½ per cent. loss on dis.,	405		
1 per ct. for red'pt'n,	1,000		
	9,205		9,095
		Dividend 8 per cent.	8,000
			1,095
		Tax on Dividend,	240
			855

leaving to the credit of contingent fund less than one per cent. upon the capital.

Should the bank be left to charge seven per cent. interest on loans, one per cent. upon the amount of discount should be added to the above calculations.

The history and results of banking under more liberal systems than that proposed will show that the temptations are not sufficient to induce banking to excess, as may be feared.

A majority of the States have enacted free banking laws, authorizing all who see fit to comply with their requirements to engage in banking. Ohio has had such a law for twelve years, under which any number of persons, not less than three, are authorized to establish a bank with from twenty-five thousand to five hundred thousand dollars, and to increase their stock at will within the maximum prescribed. They are required to have sixty per cent. of their capital paid up before commencing business, the balance to be paid as the directors may order. They are authorized to deposit with the Auditor of State, public stocks of the State of Ohio, or of the United States, and to receive therefor an amount of circulating notes, equal to the market, and not above the par value of the stocks, which stocks shall produce at least five per cent. per annum; and the amount of circulation so furnished shall not exceed three times the amount of the capital stock paid in. This law is far more favourable in every respect than the proposed national law would be, even if amended as suggested. Yet under this favourable law, with all the temptations to embark in banking which existed for several years after its enactment, and freedom from excessive taxation hitherto, there have been organized but thirteen banks, having, on the first Monday of November 1862, an aggregate capital of $1,135,250, and an aggregate circulation of $1,192,994, or an excess of circulation over capital

of about five per cent. in these times of general expansion.

Pennsylvania has a free banking law, which authorizes any person, or associations of persons, not less than five, to establish a bank with a capital of not less than fifty thousand, nor more than one million of dollars. Of the amount subscribed, fifty per cent. is required to be paid in, and the balance as the directors may determine, which is equivalent to authorizing a minimum capital of twenty-five thousand dollars. Banks are authorized to deposit with the Auditor of State, public stocks of the State of Pennsylvania, or of the United States, and to receive therefor an equal amount of circulating notes, not exceeding the market or par value thereof; and no restriction whatever is imposed upon the proportion which such circulation shall bear to the capital stock. Yet under this extremely favourable law, there have been but six banks organized, with an aggregate capital on the first Monday of November 1862, of $333,710, and an aggregate circulation of $149,706, which is less than forty-five per cent. of circulation to capital. Similar results are to be noted in all the States where the free banking system has been tried upon a sound basis.

In the State of New York, where this system has been adopted more generally, and to an extent greater than in the whole country beside, the same conser-

vative management is exhibited, and that, too, without the same rigorous restrictions being thrown around the operations of the banks as in most of the other States, and as would be by the proposed law of Congress.

By the report of the Superintendent of the Bank Department, submitted to the Legislature in January of the present year, it appears that the number of banks, banking associations, and individual bankers doing business within the State, at the close of the fiscal year, was three hundred and five. These had employed an aggregate capital of $108,606,062, and an aggregate circulation of $37,557,373, the circulation being less than thirty-five per cent. of the capital. But it is not to be argued from this showing, that such a proportion of circulation to capital is sufficient to make banking profitable. The secret of the adoption of the law to such an extent in New York is, that the aggregate deposits by banks and individual depositors, independent of the amount due the Commonwealth, was at the same time, $246,812,042, being over two and one-quarter times the amount of the capital, or more than six and one-half times the amount of circulation. Such an advantage from deposits could not be expected in other States, and the adoption of a free banking system to such an extent would be impracticable. Another fact is to be considered in connection with

this; the securities of the banks are not so limited in character or amount as is proposed in the bill for the establishment of the system of national banks. Besides a great variety of public stocks authorized to be employed, in the choice of which there is always more or less advantage, mortgages on real estate are allowed as security for circulation under certain limitations.

But it should not be omitted in this connection to eliminate some other very important facts pertinent to the discussion of the proposition under consideration. An analysis of the statement above referred to, shows that the banks of different localities do not derive uniform advantages from circulation and deposits. The great excess of deposits over capital is enjoyed by the city banks, while the country banks have an equivalent excess of circulation over capital. The city banks, in possession of large deposits, neither have, nor could employ or maintain a large circulation; while the country banks, deprived of the advantages of large deposits, are at the same time able to maintain a large circulation, which about equalizes the profits of banking in the city and the country; and these profits, it is well known, are not exorbitant, or even large. The published dividends make an exhibit of profits not tempting, except to the owners of capital who, not being able to employ it in active business, are content to receive moderate dividends, earned by the labour of

employed officers. A glance at the stock-lists will show that bank stocks do not command very flattering prices.

The Superintendent says: "The profits upon circulation are so small, that a tax upon that circulation, in addition to that already imposed upon the earnings of the banks, could not fail to prove onerous, and must have the desired effect to cause its withdrawal."

The free banking system, where a *bona fide* capital is required as a basis of business, is not, as has been frequently charged, and as is generally believed, subject to grave abuse. Suppose that under the laws of Ohio, Pennsylvania, or New York, an amount of currency should be created in excess of the demand for legitimate uses. No sooner would the redundancy be created than the perfected system of brokerage, always actively at work in its own interest, but contributing greatly to the health of the currency system, would return every dollar of circulation issued by the banks, until they would be compelled to withdraw such amount as might be in excess of the demand.

Security for issues being required in advance of their use by the bank, and a lien, prior to the claim of every other creditor, being established up on all the assets of the bank in favour of the bill holder, in case of the failure to redeem in a single instance, there not only exists little temptation to issue in excess of the

ability to redeem, but a strong inducement to the exercise of the utmost prudence and caution.

But abuses of the free banking system have occurred; and these have been paraded before the public as evidences of its unsoundness, until a very undeserved distrust has been excited in the minds of all who do not understand the defects in the law by which these abuses were not only permitted, but absolutely invited and promoted. Reference is made to the laws of the States of Illinois, Indiana, and Wisconsin, under which, or rather in the administration of which, but little regard was paid to the character of the bonds deposited as security for the redemption of the circulation; and little or no regard paid to the obligation to provide a *bona fide* capital as a basis for business. Any person or persons were authorized to engage in the business of banking, and the administrators of the law paid no regard whatever to the time, place, or manner of the organization of a bank. The only thing required was a deposit of the requisite *amount* of securities—the character being limited only to the issues of the several States of the Union, and the price being determined by the quotations of the New York Stock Board. In many cases, the fact of the hypothecation of the circulation *to be issued*, to secure the purchase of the bonds to be pledged therefor, could not have escaped the knowledge of the officials to whom were entrusted the receipt of these stocks and the delivery

of the circulating notes. Nor did this course of procedure seem to be in conflict with the intention of the legislature. To issue a secured circulation without any provision for its redemption, or even for the restoration of the value of the security, should it upon any account depreciate, seemed to be the sole aim of the reckless, unenlightened currency-tinkers, who framed and enacted the laws under which such outrages were inflicted upon the country.

Think of the latitude given to the creation of paper money! No capital—no place of business—no stipulated securities—no price at which securities should be received, except that fixed by the speculators of the stock exchange—no margin over the market price of the securities deposited—no redemption fund—and no redemption was required, except after an act of insolvency had been committed, and the securities converted at a forced sale under the auctioneer's hammer. Any person sufficiently enterprising to procure the necessary engraving and printing of notes could, by the hypothecation of the same, procure the necessary stocks to deposit with the Bank Department, get an equal amount of circulating notes, which, when signed, he could issue through his broker, and with the proceeds discharge the debt incurred in the purchase of the bonds deposited.

Having his bastard issues afloat, cared for only by the charity of the public and the bankers interested

in like projects, who knew too well the impolicy of forcing the banks to commit an act of insolvency, by which the weakness of the whole system would be exposed, the irresponsible proprietor of the bank could pocket semi-annually the heavy interest accruing upon his low-priced stocks, and laugh in his sleeve at the credulity of the public who he knew full well must bear whatever losses should eventually occur.

The general adoption of this system in several States at the same time had the natural effect to enhance far beyond their real value, the price of the inferior stocks, which were employed by reason of their greater productiveness; so that when the crash came, growing directly out of the discredit of the stocks, the public became suspicious of the currency, and it began to depreciate. This led to its purchase at a discount, and its return for redemption as a matter of profit to the brokers. The result was the protest and declared insolvency of the weaker banks. This forced their securities on the market, which caused a depreciation sufficient to excite distrust of the better banks, which only aggravated the panic, until ruin overtook every bank without a solid foundation, and shook even the best banks, by reason of their identification with a defective system. But so completely has the system been uprooted in Illinois, and the bogus banks been swept away, that the circulation of that State is now but five per cent. of

what it was before the panic, and that is upon a more secure basis, being issued under the requirements of an amended and improved law, designed to prevent illegitimate banking, but which is still far below the laws of the other States, or the proposed law of Congress in its provisions for public security. It ought not for a moment be presumed that such disaster could result from the operation of a system of free banking, legitimately carried on, requiring the investment of actual capital, and the deposit of a uniform class of first-rate stocks, with an ample margin over the market price, as security for the redemption of the circulation, and that, too, with a lien upon the capital and every dollar of other assets existing in favour of the bill-holder, prior to every other creditor. The capital invested would guard its own interests with too much fidelity to make such a thing possible; and even if it did not, the circulation of any bank organized under the system would never be allowed to depreciate. The other banks, for the sake of their own credit, would take the securities and redeem the circulation.

The general adoption of the system proposed would not, as is feared by some, lead to a redundancy of currency, and contribute to speculation, extravagance in expenditure, and an expansion of credits in the same manner, and to the same extent, that even the issue of a like amount of circulation by unsecured banks would do, for the reason that for

every dollar of circulation issued, there must be a greater amount of capital invested in bonds, and an additional amount withdrawn from use, and deposited in the vaults of the bank, with which to redeem and to meet the requirements of the law. The amount of usable capital in the hands of the banker, or in the community where the issue takes place, is thus actually diminished, instead of being increased. The banker, thus finding not only his liabilities increasing, but his means with which to redeem, diminishing with each issue of notes, is prompted by his own caution not to carry his circulation beyond the point of safety to himself, within which the public are perfectly secure.

Nor are the temptations to expansion so direct and positive, as in the case of banks issuing an unsecured circulation. In that case, the flattering persuasions of the borrower, whose accommodation depends directly upon the increase of issues by the banker, too often beguile the latter beyond the point of safety; and uniformly the temptation to accommodate some one—himself or his customers—operates, to a certain extent, to swell the circulation, for the purpose of increasing the convertible means of the bank.

The profit of a bank under the secured system is not, as in the case of those unsecured, derived from the employment of capital *doubled* by the use of its own credit, but from the double use of the same

capital, which, being deposited with the government at interest, enables the bank to obtain thereby the government guaranty of its obligations, which it is authorized to circulate and loan as money—deriving a double use of the same capital.

If the proposed system were adopted with all the privileges asked for it, what would be the probable extent to which the issue of notes of circulation would be carried?

It is difficult to answer positively, but certainly not beyond the absolute requirements of trade, for otherwise the notes would be forced home for redemption with such rapidity as to make their issue unprofitable. Nor would it likely reach the limits of the circulation under the old system, for the reason that the secured banks could not extend the same accommodations to business as is done by others, and in consequence credits of all kinds would be restricted, and less money be required to do the business of the country. Under the mixed systems of banking adopted by the several States, mostly with circulation unsecured—under which, as has been shown, the temptation to accommodate customers and facilitate business by a supply of capital, as well as to make money thereby, stimulates issues to the greatest possible extent—the average proportion of circulation to capital in the whole country is less than fifty per cent.

By the following synopsis, compiled from the Bank returns made to the Treasury Department of the United States for the year 1860, which affords a fair exposition of the average condition of the banks through several years, it is shown that the proportion of circulation to capital employed by the banks of the loyal States, exclusive of those of the principal cities, was $65\frac{3}{10}$ per cent.; in the cities of the loyal States it was $16\frac{4}{10}$ per cent.; and in the Southern States it was 48 per cent. In the loyal States, city and country together, it was $44\frac{5}{10}$ per cent., and in the whole country at large, North and South, it was $45\frac{3}{10}$ per cent.

Thus while some institutions furnished more, and others less circulation than the average, in the aggregate there was no redundancy—as there seldom is, except during a period of general suspension, when the circulation cannot be restricted by a return of the excess.

STATES AND CITIES.	No. of Banks.	Capital.	Circulation.	Specie.	Average Capital.	Average Circulation.	Average Specie.	Per cent. of Circulation to Capital.	Per cent. of Specie to Circulation.
1. Maine,	69	$8,083,000	$3,945,000	$613,000	$117,145	$57,174	$8,884	48.8	15.5
2. New Hampshire,	51	4,981,000	3,330,000	243,000	97,667	64,706	4,764	66.2	7.3
3. Vermont,	41	4,006,000	3,700,000	185,000	97,707	90,243	4,512	92.3	5.
4. Massachusetts,	135	28,146,900	15,614,000	1,583,000	208,495	115,660	11,726	55.5	10.1
5. Rhode Island,	53	5,617,379	1,600,000	130,000	105,988	30,189	2,453	28.5	8.1
6. Connecticut,	73	21,630,467	7,703,000	950,000	296,431	105,521	13,014	35.6	12.3
7. New York,	254	42,273,802	22,500,000	1,700,000	116,432	88,582	6,693	53.2	7.5
8. New Jersey,	50	8,058,810	4,050,000	950,000	161,176	81,000	19,000	50.2	23.4
9. Pennsylvania,	67	13,540,922	10,400,000	2,500,000	202,103	155,224	23,313	76.8	24.
10. Delaware,	14	1,915,010	1,000,000	250,000	136,786	71,428	17,857	52.2	25.
11. Maryland,	17	1,817,179	1,700,000	500,000	106,893	100,000	29,412	93.5	29.4
12. District of Columbia,	5	1,382,300	350,000	300,000	276,460	70,000	60,000	25.3	85.7
13. Indiana,	39	4,738,129	5,408,000	2,079,000	121,490	138,666	53,307	114.1	38.4
14. Illinois,	104	7,530,581	12,320,000	223,000	72,409	118,461	2,144	163.6	1.8
15. Iowa,	13	820,600	627,000	280,000	63,123	48,231	21,538	76.4	44.7
16. Kansas,	2	93,130	5,443	4,350	46,565	2,721	2,175	5.8	79.9
17. Kentucky,	56	15,705,590	13,500,000	5,000,000	280,455	241,071	89,286	85.9	37.
18. Michigan,	4	786,465	222,000	48,000	196,616	55,500	12,000	28.2	21.6
19. Missouri,	42	13,178,299	8,000,000	4,160,000	313,769	190,476	99,047	60.7	52.
20. Minnesota,	6	400,000	195,000	36,000	66,666	32,500	6,000	48.7	18.4
21. Nebraska,	6	400,000	600,000	100,000	66,666	100,000	16,666	150.	16.6
22. Ohio,	57	5,808,250	7,735,000	1,706,000	101,899	135,702	29,930	133.1	22.
23. Wisconsin,	110	6,812,000	4,600,000	380,000	61,927	41,818	3,455	67.5	8.2
		197,725,723	129,074,443	23,920,350					
Average, 1268 Banks,		155,935	101.793	18,864				65.2	18.5
Boston,	42	38,131,700	7,600,000	3,600,000	907,897	180,952	85,714	20.	47.3
Providence,	38	15,503,000	2,000,000	350,000	407,973	52,631	9,210	12.9	17.5
New York City,	55	69,890,475	8,800,000	25,000,000	1,270,735	160,000	454,545	12.5	284.
Philadelphia,	20	11,963,260	2,600,000	4,000,000	598,163	130,000	200,000	21.7	153.8
Baltimore,	17	10,408,120	3,000,000	2,000,000	612,242	176,470	117,647	28.8	66.6
		145,896,555	24,000,000	34,950,000					
Average, 172 Banks,		848,235	139,535	203,198				16.4	145.6
Virginia,	70	18,824,250	12,000,000	4,000,000	268,918	171,429	57,143	63.7	33.3
North Carolina,	32	7,985,000	4,500,000	1,500,000	249,535	140,625	46,875	56.3	33.3
South Carolina,	20	14,916,676	7,300,000	1,500,000	745,833	365,000	75,000	48.9	20.5
Georgia,	23	10,689,400	5,000,000	2,000,000	323,921	151,515	60,606	46.7	40.
Alabama,	8	4,900,000	4,000,000	2,000,000	612,500	500,000	250,000	81.6	50.
Florida,	3	525,000	300 000	75,000	175,000	100,000	25,000	57.1	25.
Louisiana,	14	24,674,844	8,000,000	11,000,000	1,762,488	571,428	785,714	32.4	137.5
Mississippi,	4	800,000	300,000	50,000	200,000	75,000	12,500	37.5	16.6
Tennessee,	39	10,167,500	3,500,000	2,000,000	260,705	89,743	51,282	34.4	57.1
		93,482,670	44,900,000	24,125,000					
Average, 213 Banks,		438,885	210,798	113,263				48.	53.7

Of the total means of the country, the now loyal States had about $343,500,000 capital, and about $153,000,000 circulation, to which have been added, since that time, by the banks, about $14,000,000 of circulation, beside the immense issue of Government notes, which answer all the purposes of money; yet, as the Secretary of the Treasury demonstrated in his late report, there is no great redundancy in currency. The increased uses for money, combined with the withdrawal of coin from the channels of trade, have kept the demand for and supply of money about on a par. So little redundancy is there, that the rapid withdrawal of a few millions of dollars would produce a stringency in the money market sufficient to excite a panic.

Suppose that Congress should pass a banking law so liberal as to induce every bank in the country to accept its provisions,—and to attract, in addition thereto, the investment of capital from other sources equal to twenty-five per cent. of the entire amount already invested in banking,—and that all the banks thus created under its provisions should issue circulation in the same ratio to the increased capital that the circulation of the existing banks bears to their capital,—the gross amount of currency would then be only equal to one half the amount of paper money now in use.

Suppose, further, that the Government should withdraw its legal tender issues as fast as the secured

circulation were furnished by the banks for it to use, —as it ought to do,—then, by the time the issues of the new banks had reached one-half the present amount of paper currency, the legal tender notes would have been absorbed, and the only means of redemption except in coin be thereby withdrawn, which would force the banks to give coin for their notes, making currency and coin again of equal value, by which means the coin would be deprived of its character as a commercial commodity, and become money again, and being added to the paper in circulation, would swell the stock of money to the bulk required for the transaction of the business of the country, thus securing the substitution of a currency redeemable in coin for one irredeemable, and that without producing an inconvenient contraction or expansion of the volume of money.

There could not exist for any considerable period any discrepancy between the supply of and the demand for money, since, if currency were scarce, the banks would create more; if in excess, they would be compelled to redeem and retire it.

The adoption of such a system, designed to displace by a redeemable currency the present irredeemable legal tender notes, and the bank issues based upon them, would, by the mere anticipation of its results, arrest the present ruinous speculation in gold. As a result, prices, no longer sustained by the high rates of gold, would fall off; extravagance

would be checked; speculation in goods and property cease; and the demand for money be so far diminished thereby, that by the time redemptions in coin were actually resumed, the reduced supply of paper money, based upon an equal amount of coin, now in the country, would be equal to all the legitimate requirements of business.

Now, the question arises, how could and should the amount of banking capital necessary to secure this result, and the bank note circulation based thereon be distributed over the country so as to best subserve the interests of capital, the Government, and the public?

In 1860, there were 296 banks, with capitals not over $50,000 each, possessing an aggregate capital of $13,000,000, and a circulation of over $16,000,000; 317 banks, with capitals over $50,000 and not over $100,000 each, with an aggregate capital of $27,562,000, and a circulation of $23,790,000; 348 banks, with a capital over $100,000 and not over $200,000 each, with an aggregate capital of $57,700,000, and a circulation of $34,380,000. The remainder of the banks had capitals over $200,000 each, reaching, many of them, several millions each.

This statement shows that the proportion of circulation to capital is largest in the class of smallest banks, and smallest in the class of largest banks; and that the gradation is regular from one extreme to the other, through all the classes.

But this by no means confirms the erroneous opinion that "circulation commonly is in the inverse ratio of solvency," which the Secretary of the Treasury was betrayed into expressing in one of his reports, doubtless from want of that patient and thorough investigation which he usually gives to any subject discussed by him. It is true, that commonly the smaller banks do issue and require a larger proportion of circulation to capital than the larger banks; and for the good reason, that they can with equal safety maintain a larger circulation, and do not have large deposits or other liabilities to provide for to any great extent. The Secretary certainly forgot to make a due allowance for the immense liability on account of deposits held against some of those banks which boast of a small circulation. And when a distinguished Senator, who lately quoted the opinion of the Secretary with approval on the floor of the Senate, cited in proof of its correctness the case of a bank in one of the cities which had millions of capital and little or no circulation, it could not have occurred to him that the same bank referred to had millions of dollars of liabilities in excess of its boasted capital, and that its stock had lately commanded in its own market but seventy-five cents on the dollar. And he must have neglected also to note the fact, that in the chief commercial city of his own State was to be found a bank, with a very limited circulation—only one-and-a-half per

cent. upon its capital—but whose liabilities upon account of deposits were more than twenty-three and a half times its capital. And in the same city from whence he drew his illustration to show the large capital which would have entitled the circulation of the bank possessing it to unlimited credit had it deigned to issue it, he could find another bank, with small circulation, it is true, but exhibiting liabilities on account of deposits to the extent of more than twenty-six and a half times its capital.

These illustrations are not cited to cast any imputation upon the solvency of the banks referred to, for none is entertained, but to show the unfairness of reflecting upon the character of those banks whose location and facilities enables them to maintain a fair circulation, when perhaps that is their only source of profit. While the large banks of the city are useful as the depositories of the immense sums required in conducting the commerce of the country, may it not be allowed that the smaller, but equally well managed banks of the interior, may contribute their quota to the currency of the country, and aid to the extent of their facilities in promoting the industry and commercial prosperity of the nation, without a suspicion of their solvency being based upon the mere fact of their having liabilities of one class to a corresponding extent that other banks have liabilities of another class.

A moment's reflection upon this subject must suf-

fice to show that it is not the character of the liabilities which determines the solvency of a bank, but the state of its management, and its ability to meet its liabilities when presented.

Returning to the consideration of the question, how the capital which may be authorized to be invested under the proposed law of Congress, and the circulation which may be based thereon may be distributed to the best advantage of all interests, it is suggested that to encourage the organization of national banks at all points where banking facilities of any kind may be required, will most readily bring the largest amount of capital to the support of the government finances, and interest the people most generally in the support of the government credit.

By allowing the organization of banks with moderate capitals as proposed, a much greater number of agencies of the government will be established, without in the aggregate consuming a large proportion of the capital authorized by the law to be invested, or swelling the circulation beyond the extent required for the transaction of the business of the country.

Assuming that banks would be organized, with different amounts of capital to the following extent, which is beyond probability, viz.

300	banks	with a capital of	$25,000	each, and an aggregate capital of	$7,500,000
400	"	"	50,000	"	"	20,000,000
350	"	"	100,000	"	"	35,000,000
250	"	"	200,000	"	"	50,000,000

these would absorb in the aggregate about $112,-500,000 of the banking capital, to be allowed employment under the proposed bill, or less than one-third the amount now employed in banking in the loyal States, and yet it would allow the organization of 1300 banks, a greater number than now exist in the free States, exclusive of the five principal cities. By this means the entire country would be supplied with local banking facilities, leaving all the balance of the allotted stock to be enjoyed by the larger towns and cities.

If these several banks should employ circulation, at the average rate that the country banks have done heretofore, it would provide about one-half the circulation required in ordinary times by the northern States, leaving the cities the privilege of furnishing the other half. The smaller banks, three hundred in number, would consume but $7,500,000 of the allotted stock; and if they issued circulation to the extent of three times their stock, without an exception, it would provide about $22,500,000 of notes, or about one-eighth of the entire circulation required. Now would it be probable that the exercise to the utmost extent, of the powers asked for them, could by any possibility affect injuriously the currency of the country, or interfere with the rights and privileges of other institutions to be organized with large capital? The gross capital of the entire number would not be equal to the capital

of a single bank now doing business in the city of New York; and surely if such powerful combinations of capital may be permitted under one control, there can be no objection to the distribution among three hundred institutions of a privilege, only equal in the aggregate to that now enjoyed, and that may be enjoyed under the proposed law by a single institution.

While no harm could arise from the use of the privilege to the greatest possible extent proposed, an immense influence for good would be exerted in favour of the government by these smaller institutions. They would be centres from which would flow out, in every direction, influences favourable to to the government credit and support, and by their continuous effort, not only would the substitution of the secured currency for that of the other banks be effected among the people, but a higher regard for government securities would be established.

With thirteen hundred such agencies in the smaller towns and villages, in addition to the many stronger banks which would be organized in the larger towns and cities, what mighty and controlling influence would be brought to bear in support of the government credit.

It has been shown that the proposed extension of the privileges of the banks would not yield exorbitant profits to the stockholders. But it may be argued that whatever profit would be derived by the

banks would be so much taken from the government, as the government notes, to the same extent, might be circulated, and save the interest upon that amount of loan. If this were even true, there are so many objections to the issue of paper money by the government, that it ought not to be allowed; and if the government were to undertake to circulate its notes as the regular currency of the country, private banks would be established at every point where banking facilities are required, which would be constantly operating against the government by the return of its notes to create exchange. But on the score of economy to the government, the proposed scheme may be most strongly recommended. If the government needed to borrow no more money than the volume of paper money required would supply, it might be economical to monopolize the privilege of issuing notes, and thus carry its loan without interest. But with a demand for money, which makes it necessary to create a public debt of $900,000,000, requiring the assistance of all the surplus capital of the country, it will be far cheaper to transfer to banking institutions the right to issue the circulating notes required, paying them six per cent. interest on the bonds deposited, as security therefor, deriving, in return, their support and coöperation to an extent which will enable the whole debt to be carried at the same rate of interest. To attempt to save this item of interest, rather than

secure the coöperation of the banks, would compel the sale of the public stocks at a heavy discount, and occasion constant embarrassment to the public credit. The profit derived by the banks would not be for mere services as government agents, but would be for the use of capital actually furnished for use of government; and the dividends on bank capital, under the most favourable arrangement proposed, would be less than the same amount of capital would earn, if invested in government securities at the heavy discount which they would assuredly suffer, if some efficient bank bill is not passed by the present Congress. The general profit to be derived by the people from the improvement of the government finances, will be far greater than the special profits to be enjoyed by the banks from the exercise of their proposed privileges.

The government owes a debt which it *must* pay, and being unable to pay, it must borrow; and the cost of borrowing, the people must pay, be it what it may. The money must be raised at home or abroad. It is better on all accounts—for the sake of economy, the employment of our own capital, but above all, for the sake of our national honour and independence—it is better that it be raised at home. There is, and will be capital enough, under any probable circumstances, to furnish every dollar required by the government. It is only necessary to secure it for the use of government.

The benefits arising from the direction of capital to the support of the government, will not be limited to the improvement of the government finances, its credit, or efficiency. It will withdraw it from the channels of speculation, where it is so employed as not only to embarrass the government, but to derange the business of the whole country. Much of the capital of the people is to-day so employed, that it is directly interested in realizing disaster to our arms and credit.

Adopt the system proposed; secure the investment of the surplus capital in the public funds; withdraw it from speculations in gold, real estate, and goods, and we shall have a people, whose "lives, fortunes, and sacred honour" will be pledged anew to maintain the republic. The moment the country receives the certain assurance of its adoption, the present tendency to depreciation of government securities, and inflation of prices of every other investment, will be arrested; gold will decline rapidly in price; and as the new currency is furnished, the present issues of the banks and government will be withdrawn. The steady substitution of a redeemable for an irredeemable currency will cause a return of business to a specie basis, just as rapidly as the government can withdraw its issues. No matter whether this be done by the sale of its bonds to the banks, to be used as security for their notes, by the funding of the government notes by the holders, by the invest-

ment of the reserved capital of the country in the bonds, or by receipts from any quarter whatever, whenever the banks can supply an amount of currency equal to the daily requirements of the government, the Treasury should cease to reissue a dollar of its notes, hastening thereby the return to specie payments just as rapidly as possible.

This policy once adopted and understood, business will adapt itself thereto without hesitation; speculation will be arrested; extravagance will cease; the importation of costly and unnecessary goods will be discontinued; the demands of the government and the country will stimulate home productions; manufactures will be fostered by necessity; a home market will be maintained for agricultural products; the receipts of gold will supply the demand for legitimate uses; industry will thrive, and immigration will be promoted by the certainty of cheap lands and steady employment; popular confidence will be restored in the stability of the government; and with success to our arms, under the blessing of Heaven, the financial prosperity of the country will be maintained even during the war, and after its close, will be unparalleled in any portion of our past history.